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Making Sense of the Collapse of Barings Bank

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Abstract

We may usefully interrogate individual texts in order to expose them as exercises in power that serve hegemonic and legitimation functions. To illustrate this argument I analyse the account of the collapse of Barings Bank given in the Report of the Board of Banking Supervision, and juxtapose this with other versions of the events given by investigative journalists, Nicholas Leeson, and management scholars. The Report, I suggest, promulgates a public discourse myth designed to mitigate public anxieties, and is an explicit attempt to maintain and reproduce the legitimacy of the Bank of England, the City of London, and existing regulatory structures.

Key Words/Phrases

Discourse Analysis, Sensemaking, Hegemony, Legitimacy, Barings Bank, Bank of England

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This article is primarily concerned with how a Board of Banking Supervision's (BoBS)[1] report (1995) into the circumstances of the collapse of Barings plc makes sense of a complex pattern of events, and how this sensemaking is represented as authoritative. The Barings Report (BR) describes how on 23 February 1995 Leeson, a derivatives trader working in Barings Futures Singapore (BFS), faxed his resignation, leading quickly to the realisation at Barings that the bank 'had been the victim of massive fraud' (BR 1.66). The Bank of England (BoE) tried unsuccessfully to rescue Barings, and on 26 February in London and 27 February in Singapore, administrators assumed control of the business. Just over a week later the majority of the assets and liabilities of the Barings Group were purchased by the large Dutch banking and insurance organization Internationale Nederlanden Groep N.V. (ING). Leeson is centrally implicated in the BR, depicted as a sophisticated fraudster, and bears the brunt of the criticisms made. While other Barings' personnel are criticised, it is for incompetence, not collusion with Leeson. As for the BoE, although an error of judgment (BR 13.63) and a lack of rigour (BR 13.67) are identified, these problems are linked to a few middle and junior ranking officials, and do not lead the BR to recommend regulatory reform. I contest this storyline using information contained in the BR and other textual sources. Indeed, the BR is, I argue, appropriately regarded as a totalizing and monological construct, constituted within discursive practices, and authored in an attempt to deflect attention from regulatory failures, to legitimate sectional interests, and to further the hegemonic influence of the BoE.

It has long been recognised that accounting and auditing activities are fundamentally exercises in the manipulation of meaning, and that the memoranda and reports which they generate are power effects (Willmott, 1988). This said, scholars taking a critical perspective on the financial services industries have largely shied away from the detailed interrogation of individual documents. Texts have not of course been ignored. Annual reports in particular have been analysed as rhetorical constructs (Graves, Flesher & Jordan, 1995), and have often been used as a resource for investigating specific issues (e.g., Adams & Harte, 1998). This work has not, however, led scholars in the field to undertake in-depth analyses of specific documents, even though the impact of some of these, such as BoE reports, can be considerable. As a result, relatively little is known about how such texts establish their claims to authority, and the potential theoretical utility of subjecting them to critical analysis is largely unexplored. The research contribution this paper makes is to analyze the BR, and other texts focused on the demise of Barings, in order to investigate the discursive constitution of a major episode in British banking history. It is a form of 'trans-disciplinary research' (Iedema & Wodak, 1999) that attempts to make visible the often obscure and 'opaque aspects of discourse' (Fairclough & Wodak, 1997: 258) through which social realities are articulated and shaped, reproducing and maintaining hegemonic and discriminatory social relations' (Bishop & Jaworski, 2003: 246) in the financial services industries.

I begin by discussing the literature on narrative and sensemaking as a prelude to identifying the BR as a storied attempt by the BoBS committee to make sense of Barings' collapse. This sensemaking, I argue, is not disinterested, but an exercise in power designed to reinforce the legitimacy of the BoE and the City of London by telling a 'good' (authoritative) story. I then provide some details on the BR itself, my discursive position, and the methods that I have used to analyse my textual sources. Three aspects of the storyline pursued by the BR are then subject to detailed critical scrutiny – centred on Leeson, Barings, and the regulatory authorities – and juxtaposed with other counter-versions and interpretations of people and events. Finally, I discuss the BR as a rhetorical product of certain authorial strategies that constitutes a public discourse myth which putatively mitigates anxieties while reproducing the *status quo*.

Making Sense of Complex Events

My analysis is predicated on an understanding that the BR is a narrative, albeit one that is highly convention governed. Stories, written and oral, may be regarded as explicit attempts by individuals and groups to make sense of what are often complicated sets of events with uncertain long-term consequences. The argument that sensemaking is appropriately regarded as a form of narrativization may be traced to suggestions that 'man is in his actions and practice, as well as his fictions, essentially a story-telling animal' (MacIntyre, 1981: 201) and reasonably described as either '*homo narrans*' (Fisher, 1984: 6) or '*homo fabulans* – the tellers and interpreters of narrative' (Currie, 1998: 2). 'Sensemaking' is a technical term that refers to those processes of interpretation and meaning production whereby people reflect on and interpret phenomena and produce intersubjective accounts (Weick, 1995). Considerable research suggests that it is through sensemaking that the social world is enacted, creating apparently shared meanings which in turn fashion processes of organizing (Berger & Luckmann, 1966; Garfinkel, 1967). While people in the same organizations and industries tend to assume that their understandings are similar to their peers and colleagues this assumption may sometimes be unfounded, and fundamental inconsistencies between individuals' and groups' points of view may exist un-noticed (Leiter, 1980). Thus the sensemaking stories that people author are artefacts (inventions not discoveries), and the reality they constitute is a socially constructed one (Bruner, 1991).

Understood in this context the BR is both a precipitate of the BoBS committee's sensemaking activities and an attempt to influence the understandings of its readership by highlighting some actions and explanations and omitting and marginalising others. While a relatively small number of political figures, members of the financial services industries, academics and journalists may have read the report, it was 'consumed' by a much larger audience through analyses and summaries of it in the mass media, especially terrestrial television and the press. Given an understanding of the world as 'multivocal, fragmented, decentred, with no master narratives or central texts, a world in which meaning is radically plural' (Bruner, 1993: 23) the BR is an interestingly univocal and monological account. In a Foucauldian (1977) sense it may be interpreted as exercising a disciplinary function that constitutes actions and events in order to establish a regime of truth that fixes meanings in specific ways. This is important because once meanings become fixed they may exercise a profound hegemonic influence, shaping the stories told by others about these and similar types of events.

My use of the term 'hegemony' is borrowed from Gramsci (1971). As Femia (1987) has made clear, Gramsci was not consistent in his use of the term, which he used to describe various forms of mass affiliation involving different mixes of coercion, consent and activity/passivity. Furthermore, the notion of 'hegemony' has been subject to multiple elaborations and reinterpretations by more recent theorists who have sought to analyze Gramsci's work and to apply the concept in modern contexts (e.g., Buci-Glucksmann, 1982; Laclau & Mouffe, 1985; Mumby, 1987). In this paper, hegemony is taken to refer to a form of cleverly masked domination which 'involves the successful mobilisation and reproduction of the *active* consent' of those co-opted by it (Clegg, 1989: 160, emphasis in the original). Hegemonic understandings seem 'natural' and are 'taken for granted', but this appearance of spontaneity is illusory. Subaltern social groups, (those subject to the hegemonic impositions of an elite), may have their own embryonic conceptions of the world, but lack an appropriate language to interpret and express themselves. Their reliance on the information and understandings provided to them means that they are unable to develop a coherent world-view, and are 'dominated' because they 'do not actively participate in creating or critically assessing the philosophies that guide their lives' (Ives, 2004: 79).

BoBS inquiries share some of the features of public inquiries, and may be regarded as ceremonials tasked with assembling an explanatory account of particular events from the statements of witnesses, site visits, and the analysis of documentary evidence. Like public inquiry reports, BoBS reports may be understood as representing the 'longer term organizational [in this instance specifically BoE] responses' to crises (Shrivastava, Mitroff, Miller & Miglani, 1988: 292) through which institutional learning may take place. They are also one means by which the BoE acts to re-establish its legitimacy in times of crisis, 'legitimacy' being 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate' (Suchman, 1995: 574). The kinds of major problems that they probe are those which produce legitimation deficits for the BoE, and more generally the state apparatus by means of which the financial services industries are regulated in the UK. The importance of legitimacy to the BoE is indicated by Arnold and Sikka's (2001: 492) analysis of the collapse of BCCI, which makes it clear that it was ‘only when BCCI’s activities posed a threat to the legitimacy of UK banking and the reputation of the City of London, that the UK [BoE] decided to act and close it down’. BoBS reports seek to re-establish the myths of BoE omniscience and the effectiveness of state controls by offering interpretations of events that serve their interests, and thus maintain ‘the requisite level of mass loyalty’ (Habermas, 1973: 46). How this is achieved is the focal point of my paper.

The argument I elaborate is that the BR is a rhetorical product authored in such a way as to persuade not merely a small specialist audience of industry insiders, politicians and journalists, but anyone with a potential interest in the British financial services industries, to accept one version of events rather than any number of others. In its attempts to be persuasive the BR makes certain claims to be authoritative. Authority, though, is not a property of texts but attributed to texts by readers. That is, authority is ascribed to texts rather than inscribed in them, though these ascriptions are made partly on the basis of the authority claims that are made in the texts themselves. The literary devices by which texts make authority claims has been the subject of considerable research, and this is, in some ways, a related study (Nelson, et. al., 1987). Brown (2004), for example, has recently argued that in order to be received as authoritative by a readership an inquiry report works to elicit a verisimilitude attribution that requires it to conform to the rules of its genre, to offer a vicarious experience to readers, and provide good reasons for accepting the events it describes. In this paper, I outline and then contest three of the major aspects of the narrative related in the BR as they concern Leeson, Barings, and the regulatory authorities. In each instance I seek to provide an alternative interpretation of the events related in the

BR in an effort to illustrate the arbitrary nature of the narrative choices made by the Report's authors.

Methodology and Text

The analysis offered here is primarily of the text of the BR (1995), although I do draw on other accounts in order to support the arguments that I make. My decision to focus on a single document has been influenced by a burgeoning interest in discourse across the social sciences (Dijk, 1985; Fairclough, 1995; Potter & Wetherell, 1987), and, in particular, the growth in text-based research in management studies (Brown & Jones, 2000; Gephart, 1992). Rather than regard the BR as an 'objective' account of the events it describes, I explicitly recognise that it has been constructed according to the conventions of the banking policy discourse in which it is located, and to which it contributes, creating, clarifying, sustaining and modifying this version of 'reality'. That is, I acknowledge the BR is an artefact that has resulted from various authorial strategies, and which makes use of such rhetorical devices as example and selective direct quotation from witnesses to present *an* understanding of what occurred (Edmondson, 1984; Nelson, et. al., 1987). Perhaps most importantly, the focus of this paper is on the text produced by the inquiry team, and not the supposed actions and motivations of those described in the BR, to which I have no privileged access. An appreciation of how financial markets and institutions are socially constructed through discursive means casts in relief the importance of the narratives encoded in the Report for understanding how legitimacy claims are established, maintained, and reproduced.

Financial institutions, their markets, the commodities in which they trade, and the more abstract resources such as 'trust', 'certainty, and 'legitimacy' on which they rely in order to do business are, in part, discursively constituted (Iedema & Wodak, 1999). Moreover, processes of technological change, and the increasingly media-driven nature of financial markets mean that this industry has some specific noteworthy characteristics. Not only is there is a vast ‘global market for financial information and publications’, but the media through which this information is channelled (the internet, television, specialist publications etc.) has led to a conjunction of financial news and entertainment (Clark, Thrift & Tickell, 2004: 292). Financial channel anchors, investment bank analysts and ‘personalities’ spin stories which have an impact on markets by virtue of the speed by which they are circulated, the theatricality of the performances, the emotions that are generated and the celebrity of those who author and recite them (Altheide, 2002; Tsing, 1999). The BR must be understood in this context as both an important discursive contribution to peoples’ understanding of a significant episode in UK and global banking, and as a valuable resource for the mass media to exploit in order to provide ‘infotainment’ for a growing and increasingly heterogeneous if largely unsophisticated audience (Livingstone, 1999).

Initiated by the Chancellor of the Exchequer, the Rt. Hon. Kenneth Clarke QC MP on 27 February 1995, the formal terms of reference of the BoBS inquiry were:

> To establish in detail the events that led to the collapse of Barings; to identify the lessons to be drawn, for institutions, for the Bank’s own regulatory and supervisory arrangements, and for the UK system of regulation more generally; and to report to the Chancellor of the Exchequer (BR, 1.2).

The BR was the result of an investigation conducted by BoBS, with the assistance of a separate team led by the Head of the BoE’s Special Investigation Unit (SIU), which included staff from SIU, Arthur Andersen, legal representatives, and a specialist in derivatives and risk management from JP Morgan. Members of the BoBS and SIU investigation teams relied principally on three formal sources of information: (1) meetings and discussions with Barings’ personnel, regulators, supervisors and other parties in the UK, Singapore, Japan, Hong Kong, the United States and other jurisdictions; (2) copies of documents obtained from the Barings Group, Coopers & Lybrand (C&L), the BoE, the Securities and Futures Authority (SFA), and 'other sources' (BR, 1.8); and (3) interviews with 66 Barings' employees and employees of C&L London, the BoE and the SFA. The BR itself is composed of 337 pages of text structured into 14 sections and 15 appendices. The 14 major sections of the BR consist of an introduction, an account of the creation and management of Baring Investment Bank, 10 sections which deal with different aspects of the collapse, conclusions, and lessons arising from the collapse. The appendices provide a wide range of different types of supplementary information including a list of interviewees, a glossary of terms, and organizational structure charts. Each paragraph of the BR is numbered, and it is this nomenclature that is used to identify passages from it in this paper.

Methodologically, I read and re-read the BR over a period of months, breaking the text down into more manageable chunks, and compiling lists of potentially interesting features under category headings. While the processes by which I generated, modified, subsumed and discarded my core and peripheral categories were informed by my reading of grounded theory (Glaser & Strauss, 1967), they also doubtless reflected my prejudices regarding, for instance, what constitutes a worthwhile research paper. My approach was deliberately deconstructionist, a deconstruction being understood to imply an analysis of 'the relations between the dualities in stories – such as the positive and negative, the central and the marginal, the essential and the inessential, the insider and the outsider – to show the ambiguity embedded in them and to show the narrative practices used to discipline particular meanings' (Boje, 1995: 1007). As the research project evolved I gradually developed tentative hypotheses regarding the nature of the text and the authors, questioning and contesting the seemingly hermeneutically closed plot of the BR. These hypotheses took the form of a series of questions and category headings (e.g., is the story related in the BR temporally coherent? How does the BoE regulate merchant banks? What motivations are ascribed to Leeson?) that structured my analysis. Ultimately, I came to recognise that the BR casts Leeson as the prime cause of the disaster; that failures within Barings are described as the result of individuals not performing their roles effectively; and that this permits the BR to deflect attention from the extent to which the BoE and the SFA failed in their regulatory duties.

Deconstructing the Barings Report

In this section I highlight and contest three principal aspects of the narrative related in the BR. The major actors involved in my account are listed in Figure 1. The BR's authors foreground the activities of Leeson, pay little regard to the organizational context in which Leeson operated, and largely absolve the UK-based regulators from potential accusations of blame. These elements of the text are intimately related. It is the focus on Leeson that permits an account of the collapse to be authored which occasionally criticises but which does not condemn senior managers at Barings, and it is because Barings as an organization, its senior personnel and management practices, are not revealed in any detail that the regulatory authorities can plausibly be depicted as largely blameless. The essential problem, the BR maintains, is that specific individuals did not do their jobs well - something for which the BoE and SFA cannot, it is implied, be held responsible[2]. In contrast, I argue that other versions of the collapse could have been told. For example, the authors could have chosen to emphasise the failings of Barings' *qua* an organization, and the apparent inability of the BoE and SFA to regulate effectively the City of London. Such an account might have relegated the importance of Leeson to a (still key), but far from stand-alone, role in the course of events. My aim in juxtaposing the account given by the BR with alternate versions is not to suggest that one narrative is 'better' than another. While a variety of authors have suggested criteria for assessing the quality and adequacy of narratives (Bruner, 1990; Fisher, 1984), my principal concern is merely to 'interrogate' the BR.

INSERT FIGURE 1 ABOUT HERE

Leeson

Leeson is the central protagonist in the BR's account of the collapse of Barings. A necessarily much abbreviated version of the BR's narrative is as follows:

> Sent from London to Barings Futures Singapore (BFS) Leeson arrived in Singapore in March 1992, took the Singapore International Monetary Exchange (SIMEX) examinations, and began trading on the floor of SIMEX later that year. Soon after his arrival Leeson instructed a systems consultant to BFS to make alterations to computer software so that references to account '88888', (opened in July 1992), did not feature in reports that went to London except in a margin file regarding which no one (in London) took any notice (BR 5.3, 5.5). From 30 September 1992 onwards Leeson was engaged in unauthorised trading in futures and options through this account. Throughout he represented that he was in fact making profits. Barings understood that the profits from the trading activities within BFS were principally made from inter-exchange arbitrage activities involving fully matched trades at no real risk to Barings. In the event, by 27 February 1995 the accumulated losses on account '88888' amounted to some £830 million (BR 13.6). In effect, Leeson gambled on the Nikkei Index remaining stable, which it did not following the Kobe earthquake on 17 January 1995. The total cumulative loss after liquidation of Barings was £927 million (BR 4.42).

This narrative makes it clear that it is Leeson who was pivotally responsible for the failure of Barings. The BR paints a picture of Leeson as a clever and resourceful fraudster who employed a complicated range of tactics in order to disguise his actions from managers within Barings ((BR 5.42, 13.8). Yet the BR also notes that in terms of his actual trading strategy Leeson was extremely unsophisticated, in that he did not use a pricing model or have a risk management system capable of calculating the sensitivities of his exposure (BR 4.76). This tension in the version of Leeson portrayed (adept fraudster versus naïve trader), which is never directly addressed in the BR, is of critical importance to the narrative that the BR privileges. After all, if Leeson was not an intelligent operator how could the BR account for his having duped people within Barings? On the other hand, if he was not naïve, how could the BR explain the wild gamble that Leeson took on the Nikkei Index, his failure to hedge his portfolio, and his inability to calculate prices and risks, all of which are 'unusual for a genuine trading activity' (BR 4.76)[3]? The account is, in short, a product of an authorial strategy that demonizes an individual, presenting him as single-handedly responsible for negative outcomes. It is a point of particular interest that the BR provided this version of events despite the fact that Leeson did not contribute to the inquiry, and that its account was assembled largely on the basis of the testimony of those who were implicated in the bank's failure. This does not, however, prevent the BR from concluding that 'Despite these limitations, we consider that we have been able to ascertain the causes of the collapse of Barings' (BR 1.79).

An alternative version of events might, for example, have emphasised that there were a number of other Barings' personnel who had significant roles in the collapse, including those to whom Leeson had a 'direct-report' relationship, and senior directors of the Barings Group who sat on the Management Committee (MANCO) Executive Committee (EXCO) and Barings'Asset and Liability Committee (ALCO). The BR states that Barings sought to control and manage its operations by means of a recently introduced 'matrix management' system. This meant that Leeson supposedly reported to two regional managers in Singapore (Bax and Jones[4]) regarding BFS's office infrastructure, and one manager in London (Baker) via one of Baker's direct reports (Walz) for product profitability. Bax, Jones and Walz all denied that they had operational responsibility for Leeson's activities (BR 2.49, 2.54) while Baker accepted that he had responsibility for Leeson only from 1 January 1995 (BR 7.9)[5]. Thus each of these very senior managers slips in and out of the narrative without ever being a main focus for attention, or being held to account individually for their action (and inaction). The senior directors of the Barings Group who sat on the MANCO, EXCO and ALCO, who might also have figured more prominently in the BR's narrative, feature only as minor characters involved in serial 'failures in controls' (BR 7.2). The fact that Leeson's fraudulent activities resulted in both him and his bosses receiving substantial bonuses, and thus that they had a financial interest in ignoring his misdemeanours, is noted but not commented upon by the BR.

A different version might also have attempted to provide more insight into the personality of Leeson himself, his career at Barings, and how he came to occupy the position he was given. The BR in fact gives no information regarding Leeson's career at Barings prior to 1992, provides no account of how he came to be sent to Singapore, and makes few comments regarding his character save only to note that he was 'considered to be a "star performer": and…there was a concern not to do anything which might upset him' (BR 7.12)[6]. It is briefly observed that when Barings submitted an application to the SFA to have Leeson recognised as a registered representative in 1992 the SFA raised questions regarding an undisclosed outstanding County Court Judgement against him in respect of an unpaid debt (BR 2.57). Yet no questions are raised in the BR regarding what this tells us about the character of Leeson, (his probity for example), or the mind sets of those who then supported his move to Singapore and his promotion to General Manager of BFS. Other sources describe the increasingly bizarre behaviour of Leeson in Singapore that resulted in him being banned for a year from the Singapore Cricket Club for racist behaviour, bragging to a Barings colleague that his SIMEX position was larger than Barings' entire capital (Fay, 1996; Gapper and Denton, 1996, p.277), and being arrested for exposing himself in a public place (Stein, 2000). An alternative account to that offered by the BR might have used this information to suggest that Leeson was a flawed character whose behaviour was a 'cry for help' and to question the competence of those senior managers in Singapore and London who continued to treat him with deference and respect. A detailed account of these aspects of Leeson's behaviour would, of course, have endangered the BR's account of him as a shrewdly calculating fraudster motivated by financial gain.

Barings

While the BR presents detailed information regarding the mechanics of trading, and formal structural relationships and procedures within Barings, it provides only a sketchy account of how personnel related to each other, and how Barings as an organization actually worked. What is more, much of this information is scattered throughout various sections in what is a substantial document. Again in abbreviated form, the story provided by the BR suggests that:

> There were, in fact, a number of early warning signs that aspects of BFS's structures and activities were problematic. In July/August 1994 an internal audit report warned that 'there was a lack of segregation of duties between BFS's front and back offices' (BR 1.44) and recommended that remedial action be immediately taken as there were no effective controls on Leeson. From the beginning of 1995 there were a number of specific indicators of major problems at BFS. At the beginning of January 1995 a spurious transaction involving £50 million was reported by Barings auditors in Singapore, (C&L), in which Leeson was clearly implicated. Eventually ALCO ordered Leeson not to increase and, where possible, to reduce the size of the positions he had taken out (BR 1.47) and sent two managers (Hawes and Railton) to investigate matters. Yet no decisive action was taken and Barings failed.
>
> Seeking to account for the collapse, the BR portrays the events as a failure of internal controls at Barings as the Group tried to combine the entrepreneurial, and somewhat loosely managed business of Barings Securities Limited (BSL) with the relatively conservative, tightly managed business of Barings Brothers (BB&Co) (BR 7.7). Such failures were the result of individuals not performing their roles effectively. Underpinning this analysis were a number of startling facts. For example, unlike the Tokyo and Hong Kong offices, Singapore did not have a risk controller (BR 2.69) and no independent verification of the information supplied by the offices in Singapore was undertaken (BR 2.70). Baker, (who had overall responsibility for the equity derivatives business) did not understand the derivatives trading that Leeson was engaged in (BR 2.47). The Credit Committee, that might have surfaced problems, was headed by O'Donaghue, who 'had no previous credit experience' (BR 6.99). Information on account '88888' was contained in margin files sent to London but these were not investigated as no one had responsibility for doing this (6.131-6.138). The lack of control on the flow of

> funds from London to Singapore, and the lack of senior managers' understanding of how this money was being used, meant that Leeson could call on more than £300 million by the time of the collapse (BR 13.21, 31.22). The MANCO and ALCO, which had important oversight roles, and from January 1995 had increasing concerns about the 'switching' activity, nevertheless 'failed to pursue their concerns in a sufficiently vigorous and rapid manner' (BR 7.30).

The BR's rather arid description of events is at least as interesting for what it omits, or mentions only very briefly, as for what it reveals about the Barings organization in the period before the disaster. It is for instance, notable, that rather than single out for particular attention any one or a few key personnel at Barings the collapse is attributed to 'a failure on the part of a number of individuals to do their jobs properly' (BR 14.3). An alternative version of events might have focused on: (1) the personalities and personal relationships between senior figures in the bank; (2) the extent to which people other than Leeson knew and concealed breaches in the bank's procedures and in the regulations that govern the financial services industry; and (3) the motivations which led senior personnel neither to investigate Leeson nor to subject his activities to more formal systems of control. Various accounts of these are, though, available in a variety of other texts, notably Clark (1997), Gapper and Denton (1996), Leeson (1996), Stein (2000) and Tickell (1996).

The BR notes that there were a number of personal animosities between senior personnel, most especially Broadhurst and Jones, which rendered 'group financial control over BFS… ineffective' (BR 2.80, cf. BR 2.79, 13.20). However, no account is given of the internal life of the organization, and of its factions, cliques, beliefs and values. In particular, it is not stated which personnel were supportive of Leeson or how they acted to protect him from criticism and investigation. Other versions of events have depicted Broadhurst, Baker and Killian as not merely active in the promotion of positive views of Leeson, but as deliberately thwarting efforts by Hopkins and Hawes to enquire into his activities (Gapper and Denton, 1996; Leeson, 1996). The BR also gives almost no insight into the personalities and management practices which underpinned the rift between BB&Co and BSL. BB&Co was dominated by an English elite with aristocratic pretensions, while the key staff at BSL included Killian (an American with a history of violent behaviour), the South African Broadhurst, and Baker, who was, by repute, a brash Australian prone to outrageous behaviour (Fay, 1996; Gapper and Denton, 1996; Stein, 2000). Complementarily, the BR gives little insight into the clash of personalities that (allegedly) dominated life at BSL, noting only that ‘little respect seems to have been held by the traders for senior back office management’ (BR 2.10). Other versions of the collapse have used these sorts of information to suggest that the failure of Barings was over-determined by a variety of systemic failures within the organization. Marshall et. al. (1996: 81, 86) for instance, have argued that the collapse was the result of a failure of ‘effective knowledge management’ which resulted from executives being over-confident and caring more about protecting their own departments than about making the organization work as a whole.

On the one hand the BR portrays Leeson as cunningly deceptive, while on the other it makes it clear that it had in fact long been recognised at Barings that Leeson’s activities were inadequately monitored and controlled. No explanation why remedial action was not taken is provided, and this is a fascinating omission. The BR also asserts that information regarding account ‘88888’ was in fact regularly sent to London, observing only that ‘We were told that this was not noticed or appreciated’ (BR 5.5). Why this information was not attended to, and the sufficiency of the explanations offered by Barings’ personnel, are not investigated or commented upon. The acknowledgements of Hughes, Railton, and Granger that they all recognised the information being supplied to them from BFS was problematic, are catalogued and then ignored by the BR (BR 6.50-6.52). The BR does state that:

> There is no clear explanation as to why Barings management did not question why BSL should be apparently lending over £300 million to its clients to trade on SIMEX, when it had only collected £31 million from clients for those trades (BR 6.92).

Yet no consideration of the possible implications of this is provided. An alternative version might, for example, have probed the extent to which senior Barings' personnel knew of and condoned Leeson's activities. Indeed, the Report of the Inspectors of Baring Futures for the Singapore Minister of Finance (Ministry of Finance, 1995) raised the possibility that 'key individuals of the Baring Group's management were…wilfully blind and reckless to the truth' (Executive Summary, paragraph 18). The Singapore Report claimed that Norris briefed ALCO not to ask Leeson to reduce his positions, and, together with Bax, attempted to conceal the fraud associated with the missing £50 million (Executive Summary, paragraphs 27-31). The Singapore Report was also scornful of the protestations by Baring Group's management that they did not know of account 88888, stating that: 'In our view, the Baring Group's management either knew or should have known about the existence of account 88888' (Executive Summary, paragraph 17). Regarding the explanations that Norris and other Baring Group management members gave for why they believed that Leeson could make such large profits from such a low risk activity the Singapore Report states that they are 'implausible and in our view, demonstrates a degree of ignorance of market reality that totally lacks credibility' (Executive Summary, paragraph 36). Finally, the Singapore Report notes that:

> For three years, account 88888 purportedly escaped the notice of the entire Baring Group management. Yet within hours after the Baring Group senior management concluded that Mr Leeson had fled, BSL personnel working in London and Singapore with incomplete documentation, uncovered account 88888 and identified it as the immediate cause of the collapse (Executive Summary, paragraph 37).

Tickell (1996, p.12) also makes it clear that in his view ‘the reality was that the bank [Barings’ management] had been aware of the ‘rogue trades’ [conducted by Leeson] and had chosen not to act’. One important aspect of this, Barings’ remuneration policy, does receive some attention in the BR. It is, for example, noted that approximately 50% of profits before tax went directly into a bonus pool (BR 2.81), and that ‘At director level the ratio of bonus to salary was typically at least 75:25’ (BR 2.82). This meant that in 1994 the proposed bonuses would have resulted in 58 people receiving in excess of £250,000, 5 people would have been awarded more than £500,000, and 4 senior personnel more than £750,000 (BR 2.90). Yet rather than investigate whether the prospect of financial gain may have been one motivation for senior directors at Barings to neglect issues of control centred on Leeson, the BR comments only that Leeson ‘stood to benefit materially from the false level of profitability reported by him’ (BR 2.93). Barings’ personnel are blamed only for sins of omission (passivity), not commission (active involvement in the collapse) (BR 7.19-7.22).

The Regulators

The general argument made is that, in the UK at least, while there were some deficiencies in the way in which Barings was regulated, these were attributable to specific individuals rather than systemic problems with the regulatory apparatus. In brief, the BR’s account of supervisors and regulators, ostensibly ‘based upon an investigation conducted on behalf of the independent members of BoBS only’ (BR 12.1) is as follows:

> The BoE ‘regarded the controls in Barings as informal but effective’ and ‘had confidence in Barings’ senior management’, thus explaining why ‘it placed greater reliance on statements made to it by management than it would have done had this degree of confidence not existed’ (BR 13.58). Although Thompson (who was in charge of UK merchant banks) and his analysts did not have a sophisticated understanding of Barings’ Far Eastern operations they nevertheless acted reasonably by relying on the information and explanations provided by local overseas regulators and Barings’ management (BR 13.60). There were some ‘significant regulatory reporting failings’ but for these ‘management at Barings are ultimately responsible’ (BR 11.2).

> Contrary to existing legislation, and without reference to more senior management, Thompson granted Barings an informal concession to expose more than 25% of its capital base to Osaka Stock Exchange (OSE) which Barings also took to apply to its exposure on SIMEX. After two years the BoE formally withdrew this concession and Barings was asked, by letter, to reduce its exposures (BR 12.56). By then Barings exposure on OSE had reached 73% and on SIMEX 40%. Summing up, the BR states that:
>
> 'We are…unable to determine whether or not the delay on the part of the Bank in imposing the 25% limit with regard to Barings' exposure to OSE was a contributory factor in Barings' collapse' (BR 13.66).
>
> The BoE informally permitted the solo consolidation of BSL and BB&Co from 1 November 1993 (BR 12.76), which meant that unlimited funds could be transferred between the two. This was the first time that the BoE had permitted solo consolidation of a substantial securities company and a bank, yet it was not discussed at the highest level within the BoE, and its potential impact not fully investigated. Reflecting on events the BR asserts that 'solo consolidation was not itself the cause of the collapse' (BR 13.70) and the problems that did arise from it were in fact 'the result of deficient management accounting and control and the way in which solo consolidation was implemented at Barings' (BR 11.29).
>
> The BR concludes:
>
> 'The events leading up to the collapse of Barings do not, in our view, of themselves point to the need for any fundamental change to the framework of regulation in the UK. There is, however, a need for improvements in the existing arrangements' (BR 14.5).

This account is vulnerable in a number of respects. First, the BR locates what it considers to be 'errors' made by the BoE and attributes them to one middle ranking officer (Thompson) and a variety of junior personnel. Nowhere is the Governor of the BoE (George) criticised for failing to oversee the activities of his staff, and nowhere is it noted that he had ultimate responsibility for ensuring the effective regulation of Barings[7]. Second, the BR does not give a reason why the BoE had such considerable confidence in Barings' senior management or why Barings had been granted a concession which permitted it to exceed the 25% limit. Other authors (Hall, 1995; Tickell, 1996) have suggested that the intimate working arrangements between the two institutions were symptomatic of the ties that bound together two British establishment institutions. Hall (1995, p.23) for instance, has suggested that these anomalies were indicative of the BoE being insufficiently inquisitive ‘in the case of the older and more ‘blue-blooded’ institutions’ in the City. Third, the narrative that makes Barings’ management culpable for regulatory reporting failings, and exonerates the BoE, presupposes a particular view of how financial services organizations ought to be regulated. The BR may be interpreted as symptomatic of the BoE’s ideological preference for deregulated markets and commitment to individual autonomy, neutrality and the facilitation of individual responsibility. An alternative version of the collapse might have suggested that the volatility inherent in derivatives trading meant that there was a strong case for increased regulation and supervision of this industry. Such an account might also have questioned the BoE’s decision not to pursue an inspection-based approach to supervision of financial services institutions such as that adopted by federal bank regulators in the USA[8] (Hall, 1995).

Fourth, an alternative version of events may have placed a greater emphasis on the importance of the solo consolidation of BB&Co and BSL that was permitted by the BoE in 1993. As a matter of fact several of the witnesses to the inquiry specifically problematised solo consolidation. Maclean, for example, said that solo consolidation was ‘one of the factors at the heart of this problem’, and maintained that ‘It [the collapse] could not have happened without solo consolidation. That is the starting point, as far as I am concerned’ (BR 11.27). Finally, the BR is notable for the large number of statements exonerating the BoE , the SFA and their officials (e.g., BR 12.148, 12.158). For example, it is said that the BoE did not check on Barings to see if it had addressed the control problems disclosed by the external auditors, but that ‘…we [the BR’s authors] do not consider it unreasonable that the Bank did not take this course of action’ (BR 12.96). Complementarily, the BR asserts that ‘we do not believe that any criticism attaches to the fact that the Bank did not seek to verify the efficiency of the BSL internal audit function at that time' (BR 12.99). Such statements seem overtly designed to inoculate the BoE against possible accusations of incompetence or lack of due diligence. An alternative reading of the 'facts' might have resulted in a focus on a 1993 meeting of the College of Regulators at which it was reported that Barings had 'acquired a reputation for being slightly cavalier in its attitude to internal controls' (BR 12.102), and used this to suggest that the BoE ought to have investigated Barings' internal risk and control systems. Such a narrative would, perhaps, not have featured the commendations of the BoE for good work made in the BR (e.g., BR 14.47 and 14.50). Indeed, a variety of other commentators have commented upon 'the Board's failure to deliver a more forceful censure of the Bank's [BoE] performance in supervising the Barings Group' (Hall, 1995: 23; cf. Clark, 1997; Tickell, 1996).

Discussion and Conclusion

In this paper I have sought to analyse some aspects of the BR and to show that it is possible to question important elements of its storyline. I have done this in order to illustrate the potential utility to theorists of interrogating individual texts using broadly discursive and more specifically deconstructive methods. The BR, I have suggested, is a rhetorically contrived narrative that represents the BoBS committee's attempts to make sense of what were recent but complicated events. It is also an exercise in power designed to maintain and reproduce the interests of the BoE and the City of London, to reduce public anxieties excited by the collapse of Barings, and which now functions as a public discourse myth that reinforces illusions of control. These are findings that require further amplification and analysis.

The BR is a rhetorical product that was authored in an attempt to persuade a potentially sceptical and heterogeneous readership of industry insiders, journalists, academics and the public in general to accept a particular, and contestable, version of the events that it describes. The argument that texts bear witness to their own plausibility and are fashioned not just to inform but persuade is well supported (Nelson, et al, 1987; McCloskey, 1985). The BR is thus recognisable as a form of fiction in the sense of having been created, (‘something made or fashioned’ (Clifford, 1986: 6)), rather than discovered, and which has been written subject to the same sorts of challenge that face other authors, namely ‘how to develop an engaging, compelling account, one that readers can willingly buy into’ (Barry & Elmes, 1997: 433). The story it provides has, as a matter of fact, been only partially successful. On the one hand, it skilfully appears to offer a plausible narrative, based on multiple *bona fide* sources, that has been written by suitably qualified and reputable authors. On the other, alternative explanations for events may be, and in some cases have been offered by a variety of other individuals and institutions. These contrasting views have, however, received far less attention than those expressed in the BR. That is, the BR has largely been judged to, in Fisher’s (1984) terms, have both narrative probability (coherence) and narrative fidelity (the ring of truth), and in Bruner’s (1990: 112) words, to have achieved ‘coherence, livability and adequacy’. What I have sought to illustrate is that a text can be simultaneously credited with a degree of verisimilitude but also recognised to contain arguable misrepresentations and omissions.

The BR is a crystallization of the sensemaking activities of the BoBS committee that investigated the events it describes. It is, in part, because sensemaking tends to occur ‘in the service of maintaining a consistent self-conception’ (Weick, 1995: 23) and is driven by requirements for plausibility and coherence rather than ‘accuracy’, that it is important the authors of such reports are understood to have no personal stake in their findings. The fact that three members of the BoE - the Governor, Deputy Governor and the Executive Director responsible for Regulation – were *ex officio* members of the BoBS committee that wrote the BR is thus of particular interest. While we can draw no specific conclusions here, we can usefully note that, as Coopey et. al. (1997: 312) have asserted, people make sense of stimuli ‘in ways that respond to their own identity needs’, and are often creative in their use of memory to enhance ‘their feelings of self-esteem and self-efficacy’. By the same token, it should be observed that ‘The ability of a text to make sense in a coherent way depends less on the willed intentions of an originating author than on the creativity of a reader’ (Geertz, 1983: 141). In short, not only do we need to recognise that understanding is ‘a mediation between a text and a reader’ (Tenkasi & Boland, 1993: 85) such that one text may be understood in multiple ways, but that all texts and readings of them (including this one) are recognisable as implicated in relations of power.

The BR’s micro-focus on the activities of Leeson and the technical details associated with trading futures and options on SIMEX has important implications. It is an authorial strategy that acts as a smokescreen, distracting readers, leading them down blind alleys to what are (arguably) peripheral considerations, rather than contextual details which shed light on the incompetence and wrong-doing of others at Barings. It permits the BR to argue that Barings was brought down by one mis-directed individual (i.e. human error) rather than systemic failures that could and perhaps should have been detected earlier by the BoE and SFA. This in turn allows the BR to conclude that while middle and junior officials at the BoE made errors of judgement, there is no need for the system of bank regulation in the UK to be further investigated. The Leeson-centric explanations offered by the BR, like other sorts of ‘human error’-oriented plots ‘deflect critique’ (Turner & Pidgeon, 1997: 180), effectively depoliticizing the collapse by allocating its origin to an actor ‘employing situational [in this case flawed] logic’ (Gephart, 1992: 117). The storyline pursued by the BR thus effectively serves the interests of the UK regulatory authorities and the City of London, reproducing and legitimating the *status quo*. The BR would thus seem to illustrate Kemp’s (1985: 177) argument regarding public inquiries, which he describes as ‘rarely objective, rational and egalitarian; they are manipulated to further…[certain]… interests’.

My analysis of the BR has drawn on the discursive positions not just of the Board of Banking Supervision (BoBS) but of the Singapore Ministry of Finance (MoF), investigative journalists (Gapper and Denton (1996), Nicholas Leeson (1996), and scholars (Clark, 1997; Hall, 1995; Stein, 2000; Tickell, 1996). Each of these constituencies articulated a discursive position that reflected and incorporated their institutional and/or professional position. The BR was authored at a time when the globalization of the banking and finance industries posed, and indeed continues to pose, intriguing questions regarding the extent to which organizations such as the BoE can engage in the effective regulation and surveillance, and thus ensure the accountability, of corporations (Robertson & Khondker, 1988; Waters, 1995). Coming so soon after the collapse of BCCI, which was closed down by the BoE on the 5th of July 1991, the failure of Barings was a huge embarrassment that threatened to undermine confidence in the UK regulatory authorities, and in particular to dent the credibility of the BoE. Similarly, SIMEX was a relatively new trading arena in fierce competition with equivalent markets in Japan, and the Singapore MoF may well have been under intense local pressure regarding Leeson’s illegal activities to locate bureaucratic failures within Barings and regulatory failings overseas. Arguably, the reports of both the BoBS and the Singapore MoF were the products of industry structures and more broadly social structures of communication, interaction and symbolism, which incorporated a range of ideological statements that dominant interests in London and Singapore sought to privilege, and represent explicit efforts to repair the legitimacy of the institutions which commissioned them.

Nicholas Leeson's (1996) own version of events and his motivations was a clear attempt to salvage his personal reputation and to undermine the positions of key staff within Barings and the BoE. The accounts of investigative journalists, which often placed considerable emphasis on personality and remarkable behaviour rather than technical banking details, were evidently written in order to attract a wide readership. In contrast, the reports and journal papers written by scholars were designed to be read by a relatively small, specialist audience, ostensibly from a position of studied neutrality. However, in some instances blatant ideological positions have been adopted by academics, notably in Hall's (1995) attack on the privileged elite that dominated the BoE and certain City banks, and Tickell's (1996) critique of deregulated markets. Such considerations are important because they suggest that the discursive constructions of individuals and institutions require comprehension in terms of broad personal, organizational, historical, social and professional contexts. My analysis also symptomises that, as Laclau and Mouffe (1985) have commented, signification is an infinite play of difference: multiple voices result in meaning never being finally fixed, but in flux, unstable, and contested.

From this perspective, the BR may be understood as a means of 'instrumentalizing' consent, as requiring little interchange between those who authored it and the audience for whom it was designed, and thus as a tool of repression. It is an attempt by a hegemonic organization, the BoE, to 'spin' a story which universalizes, espouses and protects its own interests. In it, economic and political objectives combine in an 'intellectual and moral unity' in ways which obscure and marginalize alternative versions of events and other understandings of their implications for the regulation of the financial services industries (Buci-Glucksmann, 1982: 120). As Mumby (1987: 113) has asserted, 'narratives not only evolve as a product of certain power structures, but also function ideologically to produce, maintain, and reproduce those power structures'. BoBS reports, together with other forms of public inquiry reports, are, of course, just one lever among many by which the state seeks to repair legitimacy crises and reassert its hegemonic domination (Burton & Carlen, 1979: 8). Hegemony, understood as a strategy for gaining active consent, operates throughout civil society, and the BoE is one institution among many that works to counter potential crises of authority, values, and social bonds.

Finally, the collapse of Barings was extremely anxiety provoking because it threatened to undermine the general assumption that the merchant banks operating in the City of London were competent bureaucratic entities and that they were adequately monitored and controlled. The collapse cast in relief the fact that social actors are far from predictable, and that at least some organizations are 'in a very literal sense out of our, or indeed anyone's control' (MacIntyre, 1981: 101). The BR represents an attempt to mitigate public anxieties by offering seemingly plausible explanations for events that also work to preserve existing institutional frameworks and regulatory regimes. It may usefully be thought of as a public discourse myth that reinforces feelings of omnipotence and fantasies of control among stakeholder groups (Bormann, 1983). The BR is also a narrative archetype that functions to sensitize professionals in the financial services industries to the dangers that a 'rogue trader' can pose to merchant banks. The report thus makes an important contribution to the 'conversational and social practices…through which the members of a society socially construct a sense of shared meanings' (Gephart, 1993: 1469). In such ways do BoBS reports reproduce in codified form relations of domination that while seductive leave us impotent behind the bars of a psychic prison (Burrell & Morgan, 1979).

Conclusions

The analysis offered here is important because it exposes the capacity of texts and their narratives to accomplish extraordinary things – such as the re-establishment and reproduction of the legitimacy of institutions in the aftermath of their spectacular failure. While ‘all texts are biased, reflecting the play of class, gender, race, ethnicity, and culture’ (Denzin, 1994, p.507), the BR is also an exercise in power that functions hegemonically to impose a particular version of reality on its readers. The BR is a univocal representation that omits, marginalizes, and selectively highlights in its suppression of interpretive plurality (Brown, 2000). The impositional intent of the report is masked by its elimination of dissensus, glossing over of ambiguities, ignoring of inconsistencies, and exclusive focus on a single, relatively simple storyline. It is a monologue that closes down competing ideas, explanations, and plots, discouraging sceptical questioning, thus cementing and unifying ideological structures (Gramsci, 1971). Yet, like other accounts of people and interactions, the BR may also be regarded as ‘an inscription of communicative processes that exist, historically, between subjects in relations of power’ (Clifford, 1986: 15). That is, the reading and writing of reports and other documentary evidence produced and used by the financial services industries and their regulators ‘are overdetermined by forces ultimately beyond the control of either an author or an interpretive community’ (Clifford, 1986: 25).

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Figure 1

Name	**Responsibility**
Barings	
Baker	Head of Financial Products Group, BIB; Director, BB&Co.
Bax	Regional Manager, South Asia, BIB; Director, BFS; Managing Director, BSS
Broadhurst	group Finance Director, BIB
Granger	Manager Futures and Options Settlements, BIB
Hawes	Head of Derivatives Settlement, BIB
Hopkins	Director and Head of Group Treasury and Risk, BIB; Director, BB&Co.
Hughes	Treasury Department Manager, BIB
Jones	Regional Operations Manager, South Asia; Chief Operating Officer, BSS; Director, BFS
Killian	Head of Global Equity Futures and options Sales, BIB
Leeson	Head Trader and General Manager, BFS
Maclean	Head of the Bank Grop, BIB; Director, BB&Co.
Norris	Chief Executive Officer, BIB; Director, Barings plc
O'Donaghue	Head of London Credit Unit, BSL, and subsequently BIB
Railton	Futures and Options Settlements Senior Clerk, BIB
Walz	Global Head of Equity Financial Products, BIB; Director, BB&Co.
Bank of England	
George	Governor
Thompson	Senior Manager, Merchant Banks, Major UK Banks Supervision

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Nomenclature

BIB	Baring Investment Bank
BB&Co	Baring Brothers & Co., Limited
BFS	Baring Futures (Singapore) Pte Limited
BSS	Baring Securities (Singapore) Pte Limited
BSL	Baring Securities Limited

Notes

[1] Set up in 1987 following the Johnson Matthey bank affair, BoBS function is to advise the senior officials of the BoE regarding their exercise of supervisory powers. BoBS consists of three ex-officio members, the Governor and Deputy Governor of the BoE, together with the Executive Director responsible for Regulation, Supervision and Surveillance, and six putatively independent members appointed jointly by the Chancellor of the Exchequer and the Governor of the BoE. The Deputy Governor resigned on 22 March 1995. His place on BoBS was not filled during the remainder of the inquiry.

[2] The BR makes it clear that the SFA defined its responsibilities very narrowly, but that 'we consider that it would not be right to criticise the SFA' (13.77).

[3] Leeson (1996) describes himself as having used account 88888 to book errors made by his trading staff rather than for personal gain, and to have got into trouble while attempting to trade out of positions that his staff had accidentally taken on. He depicts himself as having deceived his bosses by offering nonsensical explanations for events which they did not question. His view of himself as a naïve do-gooder acting to protect his staff and live-up to the expectations of his bosses contrasts with that given in the BR.

[4] Neither Bax nor Jones were interviewed by the BoBS inquiry, though both gave evidence in the form of letters to it.

[5] Baker maintained that in a 'product sense' Leeson reported to Killian, though Killian told the Inquiry 'I do not believe that Nick [Leeson] ever thought I was his boss' (BR 7.10).

[6] Baker described Leeson to the Inquiry as a 'lone star' while Gueler said that 'Because he [Leeson] was so trusted, he was regarded as almost a miracle worker. He had a lot of free rein to do what he had to do' (BR, 7.12).

[7] George was not called as a witness to the Inquiry. No explanation for this is provided in the BR.

[8] The BR discounted regular inspection visits because they 'would involve a very significant increase in the cost of supervision' (BR 14.51). This view is not supported by any investigation or cost benefit analysis.